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TELEGRAM

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AM: DB10247-0461

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ACTION ES-08

INFO OCT-01 ADS-00 AID-07 INR-10 EUR-12 SS-15 OIC-02
AF-19 CIAE-00 EA-10 ICA-11 DODE-00 H-01 IO-15
NEA-06 NSC-00 ARA-16 NSAE-00 COME-00 HA-06 TRSE-00
PH-09 PA-01 OND-01 RP-10 ASR-01 SSN-02 SP-02
SR-04 SPRS-02 /167 W

-----266212 270600Z /17

R 270454Z MAY 81
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC #202
INFO AMEMBASSY PARIS
UNMISSION GENEVA

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ED/IFD/DMA FOR MILAM
NEA/PAB FOR MURPHY
R/P FOR DENEY

E.O. 12968: N/A
TAGS: PK, EFIN, EAID, SREF

SUBJECT: AID TO PAKISTAN CONSORTIUM MEETING

1. SUMMARY. AT FORTHCOMING JUNE 11-12 AID TO PAKISTAN CONSORTIUM MEETING, GOP INTENDS TO ASK FOR DOLS 600 MILLION IN PROJECT ASSISTANCE, DOLS 70 MILLION IN FOOD AID, AND DOLS 250 MILLION IN NON-PROJECT, NON-FOOD ASSISTANCE. GOP REPRESENTATIVES WILL ALSO SEEK DOLS 200-250 MILLION TO COVER AFGHAN REFUGEE PROGRAM EXPENSES WHICH ARE NOT FUNDED THROUGH BUDGETS OF WFP OR UNHCR AND SPECIAL ASSISTANCE FOR THE BACKWARD REGIONS OF NWFP AND BALUCHISTAN WHICH WOULD BE DELINKED FROM GENERAL CONSORTIUM AID AND WOULD COVER BOTH RUPEE AND FOREIGN EXCHANGE PROJECT COSTS. END SUMMARY.

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2. SECRETARY ECONOMIC AFFAIRS DIVISION, EJAZ MAIK,

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CONVOKED MEETING OF REPRESENTATIVES OF AID TO PAKISTAN CONSORTIUM COUNTRIES MAY 25 TO SET FORTH REQUESTS FOR ASSISTANCE THAT GOP WILL PRESENT AT JUNE 11-12 CONSORTIUM MEETING IN PARIS.

3. NAIK NOTED PERFORMANCE OF PAKISTAN'S ECONOMY HAD BEEN SOMEWHAT BETTER THAN HAD BEEN INDICATED IN APRIL 10, 1981 WORLD BANK REVIEW OF "PAKISTAN'S ECONOMIC DEVELOPMENT AND PROSPECTS". THERE HAD BEEN SIGNIFICANT INCREASES IN PHYSICAL PRODUCTION OF AGRICULTURAL COMMODITIES AND INDUSTRIAL GOODS AS WELL AS THE FINANCIAL CONSOLIDATION CALLED FOR IN NOVEMBER 1980 AGREEMENT WITH IMF. GOP WAS NOW PROJECTING GOP GROWTH RATE FOR FFY 80-81 AT 5.7 PERCENT. INCREASE IN AGRICULTURAL SECTOR WOULD BE 4.3 PERCENT WITH DECLINES IN RICE AND COTTON CROPS OFF-SETTING RECORD SUGAR AND WHEAT HARVESTS. GROWTH OF OVER 9 PERCENT WOULD BE RECORDED IN INDUSTRY DESPITE THE COMPARATIVELY POOR PERFORMANCE OF THE TEXTILE SECTOR.

4. NAIK ASSERTED THAT BALANCE OF PAYMENTS SITUATION IN FFY 1980-81 WOULD BE BETTER THAN FORECAST. CURRENT ACCOUNT DEFICIT WOULD BE ABOUT DOLS 1.1 BILLION AS A RESULT OF HIGHER EXPORT EARNINGS AND A LOWER THAN ANTICIPATED LEVEL OF IMPORTS. (N.B., PRODUCERS HAVE MADE LARGE DRAWDOWNS ON INVENTORY IN EXPECTATION OF IMPORT LIBERALIZATION). WORKER REMITTANCES WERE NOW PROJECTED AT DOLS 2.2 BILLION. DESPITE BEST RELIEF, NAIK CLAIMED THAT NON-PROJECT AID WOULD BE DOWN FROM LEVELS REACHED IN FFY 79-80, HOWEVER, THIS WOULD BE COMPENSATED FOR BY SOR'S AVAILABLE TO GOP UNDER EFF AGREEMENT WITH IMF. SHORTFALLS IN COMMODITY AID HAD HAD ADVERSE LIMITED OFFICIAL USE

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IMPACT ON BUDGET BUT GOP EXPECTED TO STAY WITHIN IMF CREDIT CEILING (N.B. THIS SHOULD BE POSSIBLE BECAUSE GOP FLOATED SPECIAL RS. ONE BILLION BOND ISSUE MATURING IN 2001 WHICH CARRIED SUBSTANTIAL 11 3/4 PERCENT INTEREST RATE AND USED SHORT TERM FX BORROWINGS TO HELP COVER BUDGET DEFICIT). ACCORDING TO NAIK, FISCAL DISCIPLINE HAD BEEN MAINTAINED WITH REVENUES GROWING FASTER THAN EXPENDITURES AND SAVINGS IN PUBLIC SECTOR CLIPPING TO ABOUT THREE PERCENT.

5. NAIK STATED THAT GOP HOPED TO ATTAIN GOP GROWTH

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RATE OF 6.1 PERCENT IN FFY 1981-82 OF WHICH 5.2 PERCENT WOULD COME FROM AGRICULTURE AND 0.8 PERCENT IN INDUSTRY AS NEW CAPACITY CAME ON STREAM. ANNUAL DEVELOPMENT PLAN (ADP) SPENDING COULD CLIMB BY 6.1 PERCENT AND REDUCTIONS IN OUTLAYS FOR PUBLIC SECTOR INDUSTRIAL PROJECTS WOULD ALLOW FOR INCREASED SPENDING ON AGRICULTURE, ENERGY, AND THE SOCIAL SERVICES. GOP HOPED TO REDUCE FERTILIZER SUBSIDIZING AND TRANSFER SAVINGS INTO AGRICULTURAL RESEARCH, EXTENSION SERVICES, AND STORAGE FACILITIES. PORTION OF ADP SPENDING COVERED BY EXTERNAL AID AND DEFICIT FINANCING WOULD DECLINE. EXPORTS IN FFY 81-82 WERE EXPECTED TO CLIMB BY 14 PERCENT WHILE IMPORTS WOULD BE BELOW \$0.5 6.46 BILLION WORLD BANK ESTIMATE AS CONSEQUENCE OF INCREASED DOMESTIC PRODUCTION AND HOPED FOR ELIMINATION OF SUGAR AND WHEAT IMPORTS. MOVE TOWARDS IMPORT LIBERALIZATION WOULD BRING ABOUT LARGER OVERSEAS PURCHASES OF RAW MATERIALS, MACHINERY, AND SPARE PARTS. GOP WOULD REQUIRE BOTH NON-PROJECT COMMODITY AID AND BEST RELIEF IN FFY 81-82. GOP WOULD BE ASKING FOR RELIEF ON GSA BEST FOR ADDITIONAL EIGHTEEN MONTH PERIOD, I.E., UNTIL MID-JANUARY OF 1984. IF CONSORTIUM AGREEMENT ON BEST RELIEF COULD NOT BE ACHIEVED AT FORTHCOMING CONSORTIUM MEETING, NAIS SAID THAT GOP WOULD REQUEST SPECIAL CONSORTIUM MEETING TO CONSIDER THIS ISSUE. NAIS ALLEGED THAT DECLINE IN

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COMMODITY ASSISTANCE WAS HURTING GOP. PROJECT AID

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ACTION EB-08

INFO	OCT-01	AOS-00	AID-07	INR-10	EUR-12	SS-18	OIC-02
AF-10	CIAE-00	EA-10	ICA-11	DODE-00	H-01	IO-18	
NEA-06	NSC-08	ARA-16	NSAE-00	COME-00	HA-06	TRSE-00	
PH-09	PA-01	OMB-01	RP-10	AGR-01	SSN-02	SP-02	
SR-04	SPRS-02	/167 W					

-----266223 270601Z /17

R 270444Z MAY 81
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC 0203
INFO AMEMBASSY PARIS
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REQUIRED RUPEE COMMITMENTS WHICH WERE DIFFICULT FOR GOP
TO MAKE DURING PERIOD OF FINANCIAL REFORMING. GOP
WOULD, THEREFORE, ASK CONSORTIUM FOR DOLS 200 MILLION
IN COMMODITY ASSISTANCE, DOLS 70 MILLION IN FOOD AID,
AND DOLS 600 MILLION IN PROJECT LOANS. IN ADDITION,
PAKISTAN WOULD SEEK PLEDGES FOR DEVELOPMENT PROJECTS
IN BALUCHISTAN AND THE NORTHWEST FRONTIER PROVINCE AND
ASK FOR CONSORTIUM GRANTS OF DOLS 200 MILLION TO
COVER REFUGEE COSTS NOT ENCOMPASSED IN BUDGET OF
WFP AND UNHCR. RESIDENT UNHCR DIRECTOR INTERJECTED
THAT HIGHER FIGURE OF DOLS 260 MILLION WOULD BE NEEDED
FOR "OTHER" REFUGEE COSTS IN PFY 81-82. (EMBASSY
UNDERSTANDS FROM UNHCR THAT COSTS OF MAINTAINING
AFGHAN REFUGEES IN PAKISTAN DURING PFY 81-82 ARE NOW
BEING PROJECTED AT DOLS 600 MILLION--DOLS 138 MILLION
FROM WFP, DOLS 111 MILLION FROM UNHCR, AND DOLS 263
MILLION FROM OTHER SOURCES.)

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MILLION TO BE PAID BY GOP FOR DAILY MAINTENANCE ALLOWANCE,
INTERNAL TRANSPORTATION OF RELIEF SUPPLIES, AND COMPENSA-

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TION TO LANDOWNERS TO RECONDITION LAND RUINED BY REFUGEES. THE GOP WILL BE SEEKING BILATERAL FOREIGN DONATIONS TO OFFSET THESE EXPENSES).

6. GOP HAS PREPARED TWO DOCUMENTS FOR JUNE 11-12 CONSORTIUM MEETING: (A) MEMORANDUM FOR PAKISTAN CONSORTIUM AND (B) SUMMARY DESCRIPTION OF PROJECTS FOR PAKISTAN CONSORTIUM. THESE PUBLICATIONS ARE BEING AIRPOUCHED REA/PAS AND ED/IFD/GMA ON JUNE 3. COPIES OF THESE DOCUMENTS HAVE REPORTEDLY BEEN SENT TO PAK EMBASSY IN WASHINGTON FOR PRESENTATION TO DEPARTMENT.

7. EMBASSY BALANCE OF PAYMENTS PROJECTION FOR PFY 1980-81 AS WELL AS ANALYSIS OF GOP EFFORTS TO OBTAIN FURTHER FUNDING FOR AFGHAN REFUGEES WILL FOLLOW IN SEPTELE. MURREL

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